

Typescript
April 29, 2009

**FINANCIAL INSTRUMENTS — RECOGNITION AND
MEASUREMENT, Section 3855**

Amendments regarding

**Effective Interest Method
and
Embedded Prepayment Options**

Accounting Standards Board

This Typescript has been posted to assist entities that, in accordance with the transitional provisions in this Section, choose to adopt this amendment to Section 3855 before it is issued in the CICA Handbook – Accounting. The contents, style and format are expected to be used when the Section is issued in the CICA Handbook – Accounting.

Amendment to Section 3855 re application of Effective Interest Method to previously impaired financial asset (new paragraph)

A26A Once a financial asset or a group of similar financial assets (other than a loan, a receivable or a group of similar loans or receivables) has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Amendment to Section 3855 re Embedded Prepayment Options (amended paragraph A32(g); new paragraph .87E)

A32(g) A call, put, surrender or prepayment option embedded in a host debt instrument is not closely related to the host instrument unless:

- (i) the option's exercise price is approximately equal to the debt instrument's amortized cost on each exercise date; or
- (ii) the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host instrument. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host instrument over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host instrument.

The assessment of whether the call or put option is closely related to the host debt instrument is made before separating the equity element of a convertible debt instrument in accordance with FINANCIAL INSTRUMENTS — DISCLOSURE AND PRESENTATION, Section 3861, or FINANCIAL INSTRUMENTS — PRESENTATION, Section 3863.

.87E Paragraph 3855.A32(g)(ii) applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted.